

TREASURY - GENERAL

STATE INVESTMENT COUNCIL

Equity Futures Contracts

Proposed New Rules: N.J.A.C. 17:16-47

Authorized By: State Investment Council, Peter A. Langerman, Acting Director
Division of Investment

Authority: N.J.S.A. 52:18A-91

Calendar Reference: See Summary below for explanation of exception to calendar requirement.

Proposal Number: PRN 2003-177

Submit comments by July 4, 2003 to:

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The agency proposal follows:

Summary

The proposed new rules will give the Division of Investment the ability to utilize futures contracts in the domestic equity and international equity portfolios. Given the size of the equity portfolio, equity futures contracts will provide the Division with another tool to effectively respond to extreme market movements. The proposed new rules mirror the provisions contained in N.J.A.C. 17:16-21 for U.S. Treasury futures contracts. Because the Division is providing a 60-day comment period on this notice of proposal, this notice is exempt from the rulemaking calendar requirement pursuant to N.J.A.C. 1:30-3.3(a)5.

Social Impact

There shall be no social impact from the proposed new rules.

Economic Impact

The Division is already permitted to purchase U.S. Treasury futures contracts pursuant to N.J.A.C. 17:16-21. Expanding the purchase of these securities will conform the rules to the practices under N.J.A.C. 17:16-21 and should not cause an economic impact. Rather, the earnings can potentially benefit the beneficiaries of the funds and the taxpayers of the state.

Federal Standards Statement

A Federal standards analysis is not required because the investment policy rules of the Division of Investment are under the auspices of the State Investment Council, and are not subject to any Federal requirements or standards.

Jobs Impact

The State Investment Council and the Division of Investment do not anticipate that any jobs will be generated or lost by virtue of this new rules.

Agriculture Industry Impact

The proposed new rules shall have no impact on the agriculture industry.

Regulatory Flexibility Statement

A regulatory flexibility analysis is not required, since the proposed new rules impose no requirements on small businesses as the term is defined in the Regulatory Flexibility Act, N.J.S.A. 52:14B-16 et seq., but regulates only the Director of the Division of Investment.

Smart Growth Impact

The proposed new rules are not anticipated to have an impact on the achievement of smart growth and implementation of the State Development and Redevelopment Plan.

Full text of the proposal follows (additions indicated in boldface **thus**; deletions indicated in brackets [thus]):

SUBCHAPTER 47. EQUITY FUTURES CONTRACTS

17:16-47.1 Definition

As used in this subchapter, an "equity futures contract" is a legal agreement between a buyer and a seller in which the seller agrees to deliver and the buyer agrees to take delivery of a specified quantity of equity securities constituting a recognized equity index at a specified price (futures price) at a stated time in the future (delivery date). Prices are determined by competitive bids on the applicable exchange. The terms of the contract are standardized and the applicable exchange (for example, the Chicago Board of Trade) is the counterparty to each cleared transaction.

17:16-47.2 Permissible investments

- (a) **Subject to the limitations contained in this subchapter, the Director may purchase and sell equity futures contracts in connection with the domestic equity securities held in Common Pension Fund A and the international equity securities held in Common Pension Fund D.**
- (b) **The Director shall submit a list of equity futures contracts to the Council for its approval. Such list may be amended or enhanced from time to time, subject to the Council's approval and shall be designated the "Approved List of Equity Futures Contracts."**
- (c) **Any equity futures contract purchased or sold shall be listed on the "Approved List of Equity Futures Contracts."**
- (d) **The Director may accept or deliver equity securities to satisfy contractual obligations pursuant to the Division of Investment's purchase and sale of an equity futures contract.**

17:16-47.3 Limitations

Net transactions of equity futures contracts shall not exceed the amount equal to 10 percent of the book value of Common Pension Fund A's or Common Pension Fund D's underlying equity holdings.

SUBCHAPTERS [47] 48 THROUGH 52. (RESERVED)